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RUEHUJA/AMEMBASSY ABUJA 9546
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RUCPDOG/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 02 LAGOS 000104

SIPDIS

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STATE FOR AF/W, INR/AA
STATE PASS USTR FOR AGMA
STATE PASS OPIC FOR ZHAN AND MSTUCKART
STATE PASS TDA FOR NCABOT
STATE PASS EXIM FOR JRICHTER
TREASURY FOR REUTERS AND HALL
COMMERCE FOR KBURRESS
LONDON FOR SUSMAN
PARIS FOR KANEDA

E.O. 12958: N/A

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SUBJECT: CENTRAL BANK RESPONSE TO DEMARCHE ON FOREIGN
INVESTMENT RESTRICTIONS

REF: A. STATE 13856

[1](#)B. ABUJA 127

[1](#)1. (SBU) Summary. The Ambassador met with the Nigerian Central Bank (CBN) Governor Chukwuma Soludo on March 6 to express U.S. concerns about planned restrictions on foreign investment in Nigerian banks. Soludo remained firm in his intention to press forward with the new rules. While foreigners will be free to apply for banking licenses to compete in Nigeria provided they have 25 billion naira (USD 215 million), they will not be permitted to acquire stakes in existing Nigerian banks above 10 percent. The Governor reasoned that foreigners, particularly Americans, were too risk adverse and the threat of capital flight was too great to allow them to purchase outright existing Nigerian banks. He sees Nigerian banks as part of the development framework with branches throughout the country, something foreign banks have shied away from. The Ambassador stressed our concern on this issue, noting that there should not be any restrictions. Despite our emphasis on this point, the CBN Governor was not convinced and the policy is considered firm. End Summary.

[1](#)2. (SBU) The Ambassador met with CBN Governor Soludo on March 6 to express U.S. concerns over the CBN's plans to restrict foreign acquisition of Nigerian banks. When asked by the Ambassador about the plans, Soludo acknowledged that Nigeria will restrict foreign ownership of Nigerian banks to 10 percent of a bank's total capital. He gave the Ambassador a copy of a Central Bank circular that will officially announce the new restrictions. The paper elaborates on what the governor told the Ambassador. According to the circular, for any Nigerian owned bank, non-Nigerian individual or institutional investors may not own more than the share of the largest Nigerian investor nor may the total foreign shareholding exceed 10 percent. Foreigners currently owning more than 10 percent of a bank are grandfathered in, but they may not exceed their current ownership level. Local Nigerian banks may acquire or merge with a foreign bank only if the foreign bank has operated in Nigeria for five years and has branches in two thirds of the 36 states, excluding branches in state capitals. In that case, foreign ownership of the

merged bank is restricted to 40 percent.

¶3. (SBU) Soludo said the risk adverse nature of foreign banks was behind the decision. He pointedly and repeatedly held up Citibank as an example of an risk adverse institution, claiming the bank had operated in Nigeria for decades while establishing few branches and restricting its commercial lending to a few corporate clients. According to Soludo, foreign banks like Citibank take commercial lending decisions out of the hands of local Nigerians, delaying and preventing needed investment in the country. Soludo also countered that politicians in the United States have recently displayed a hostile attitude towards foreign acquisition of U.S. companies and financial institutions and he asked rhetorically what the U.S. Government's reaction would be to an hypothetical acquisition of J.P. Morgan by Chinese investors. He did acknowledge that Nigeria may eventually revisit the restrictions, but said that would be after his own service as Governor was over. The CBN Governor noted that bank licensing requirements for foreigners are the same as for Nigerians and foreigners are free to apply for a license to operate a bank in Nigeria if they meet the 25 billion naira (USD 215 million) capital requirement.

¶4. (SBU) The governor also raised the risk of capital flight as a reason for restricting foreign ownership. He claimed that foreigners were too quick to take their funds out of the country at the slightest hint of bad news. Oddly, and without irony, Soludo cited last year's call for the redenomination of the Nigerian currency as an example. (Note: In August 2007 the CBN announced plans to redenominate the naira. The plan was overruled by President Yar'Auda days later. End note). The CBN estimates that 3 to 5 billion dollars in foreign investment left the country on the day the

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Federal Government reversed the plan.

¶5. (SBU) The Ambassador thanked Soludo for his openness on the subject. She explained the benefits of open investment in financial institutions and presented the Governor with a non-paper drawn from the talking points in ref A. The Governor thanked the Ambassador for her interest and received the non-paper, but was firm in his position. When asked by the Ambassador if the policy was in already place Soludo said it was and that he was finalizing the formal announcement.

¶6. (SBU) In a subsequent lunch of the American Business Council attended by the Ambassador and Assistant Secretary of Commerce Israel Hernandez, Soludo went on to chide U.S. investors for being too risk adverse. He said that while Chinese, Indians, and Europeans were investing in Nigeria, Americans were still doing their risk analysis. In his words, American investors are "waiting until the food is fully cooked" before coming to the table. The Ambassador countered that Americans are investing in Nigeria, noting the numerous U.S. companies operating in the country and the interest of those actively exploring the Nigerian market. (Note: His comments about AGOA will be reported septel. End Note.)

¶7. (SBU) Comment: It is clear that Soludo is set in his decision to restrict foreign bank ownership. It is less clear whether that decision is being driven by a genuine concern over investment and development in Nigeria or a desire to protect established banks and their Nigerian owners. Apparently Soludo does not see the contradiction in decrying the lack of American investors while building another barrier that could hinder their investment interest. End Comment.

¶8. (U) This cable was cleared by Embassy Abuja.
BLAIR